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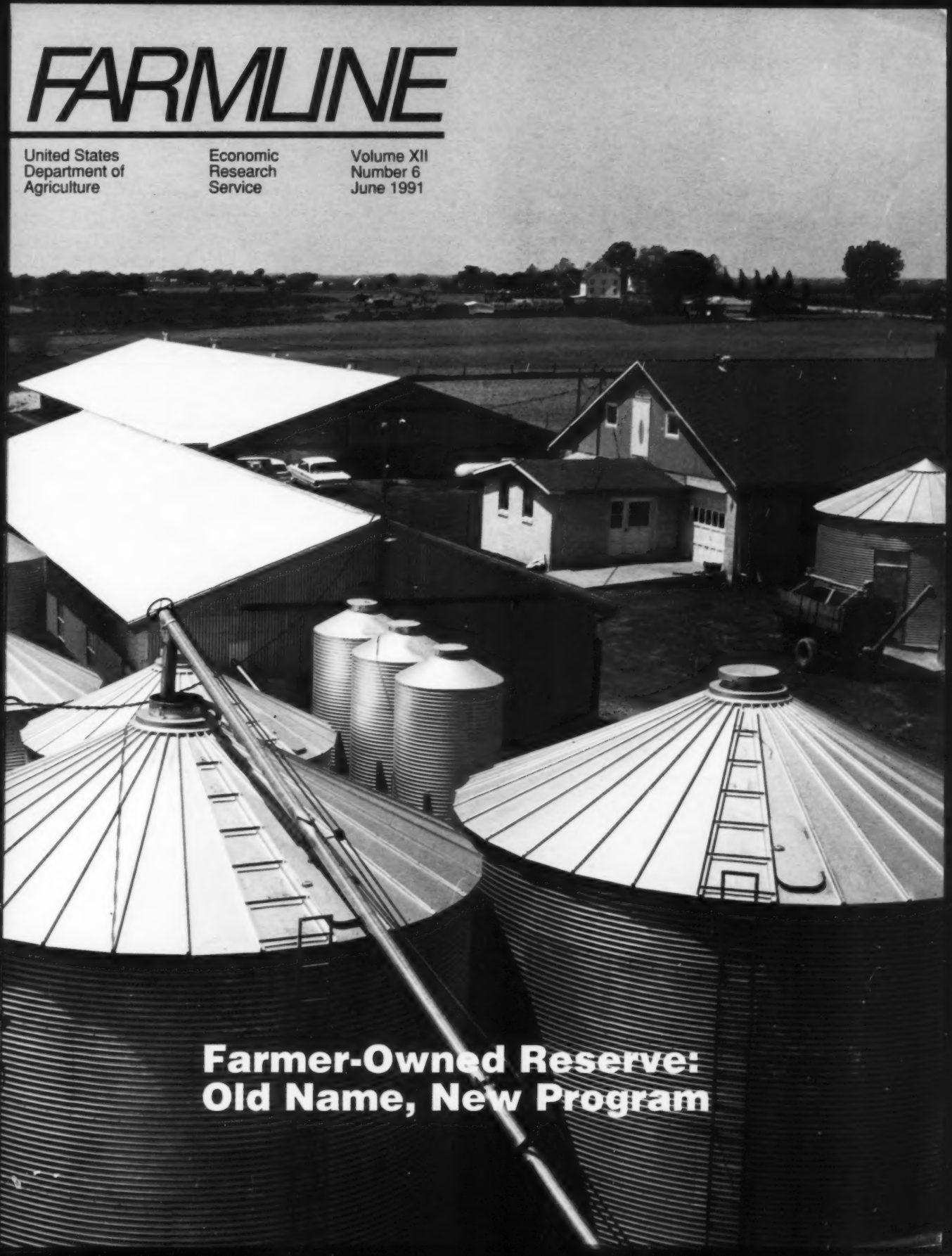

Farmer-Owned Reserve: Old Name, New Program

TAKE PRIDE IN AMERICA TM

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PERSPECTIVES

U.S. winter wheat production for 1991 is forecast at 1.50 billion bushels, down 26 percent from last year. Yields are expected to average 36.9 bushels per acre, down by 3.8 bushels. Harvested area is expected to decline to 40.5 million acres, down 19 percent. Production is off in all major wheat producing States.

According to the May 9 Crop Production report, hard red and white winter wheat yields are expected to be generally lower than last year. Conditions in early May indicated that soft red winter wheat yields would exceed those of 1990.

Harvested area of **hard red winter wheat** is forecast to be down 15 percent in the major producing States. Widespread yield declines from last year are also expected, ranging from a decrease of 2 bushels per acre in South Dakota to a drop of 7 bushels in Texas.

In Kansas—the leading wheat producing State—unusually warm weather in March pushed the hard red wheat crop ahead of normal and reduced soil moisture in central and western areas. Cool, damp weather in late April slowed crop development in eastern and central parts of the State.

By May 1, the overall development of the Kansas wheat crop was ahead of normal. Insect and disease problems were minimal, and stands affected by cutworms earlier in the season recovered well.

In most of Nebraska, growing conditions for hard red wheat were ideal since the crop broke dormancy, with only minor insect and disease problems reported. Although winterkill damage has been difficult to assess in Montana, producers there did some reseeding.

On the High Plains of Texas, lack of moisture hampered growing conditions during April. However, wheat fields in the Blacklands and central Texas matured well. Producers began harvesting in the southern part of the State in early May.

White wheat harvested area is expected to be off sharply in Washington, Oregon, Idaho, and Michigan. Yieids are likely to decline in all four States. Washington's crop was damaged by a December freeze, with east central and northeast counties hit the hardest. Producers in Idaho and Oregon lost some wheat to winterkill. Dry conditions and poor subsoil moisture presented problems in eastern Oregon, while recent rains caused some drown-out in Michigan.

On a brighter note, producers in the **soft red winter wheat** belt anticipate higher yields this season than last, except in Ohio. The crop in Missouri was in good shape overall, and conditions in Indiana improved after a slow start.

Durum wheat production in Arizona and California is forecast to plummet 38 percent from 1990. Production in Arizona is expected to total 2.58 million bushels. The crop in this State was in good condition, and ripening well. California durum production is forecast at 3.33 million bushels. Varied weather conditions impeded development of the crop there. Information on yields and production for North Dakota, the dominant durum producing State, will be published in the July 11 Crop Production report.

— Priscilla B. Glynn

FARMLINE

AGRICULTURE...NATURAL RESOURCES...RURAL DEVELOPMENT
Practical economic intelligence from USDA's Economic Research Service

FEATURES

Farmer-Owned Reserve: Old Name, New Program *by Doug Martinez* 4

With the 1990 farm bill, lawmakers introduced some big changes in the Farmer-Owned Reserve. The program's provisions have been simplified, and redesigned to allow producers to respond more readily to market conditions.

Fast Food Restaurants Help Boost Broiler Consumption *by Martha Evans* 8

The fast food industry is cashing in on America's love of chicken by offering a wide range of items featuring this meat. Restaurant use of broilers jumped from 30 percent of the national total in 1981 to 41 percent by 1989.

Economic Impact of the Elderly Not Always a Boon *by Carol Lee Morgan* 12

Attracting retirees to rural areas can give a significant boost to local economies. But the elderly can also present certain problems for their new communities, since they have greater needs for medical facilities, transportation, and other services.

Tree Nut Production Grows Rapidly *by Wendy Pinchas* 15

Tree nut production, consumption, and exports are on the rise. If U.S. exports keep growing and domestic production stabilizes, growers could see price increases. However, the United States faces competition for export markets from the European Community.

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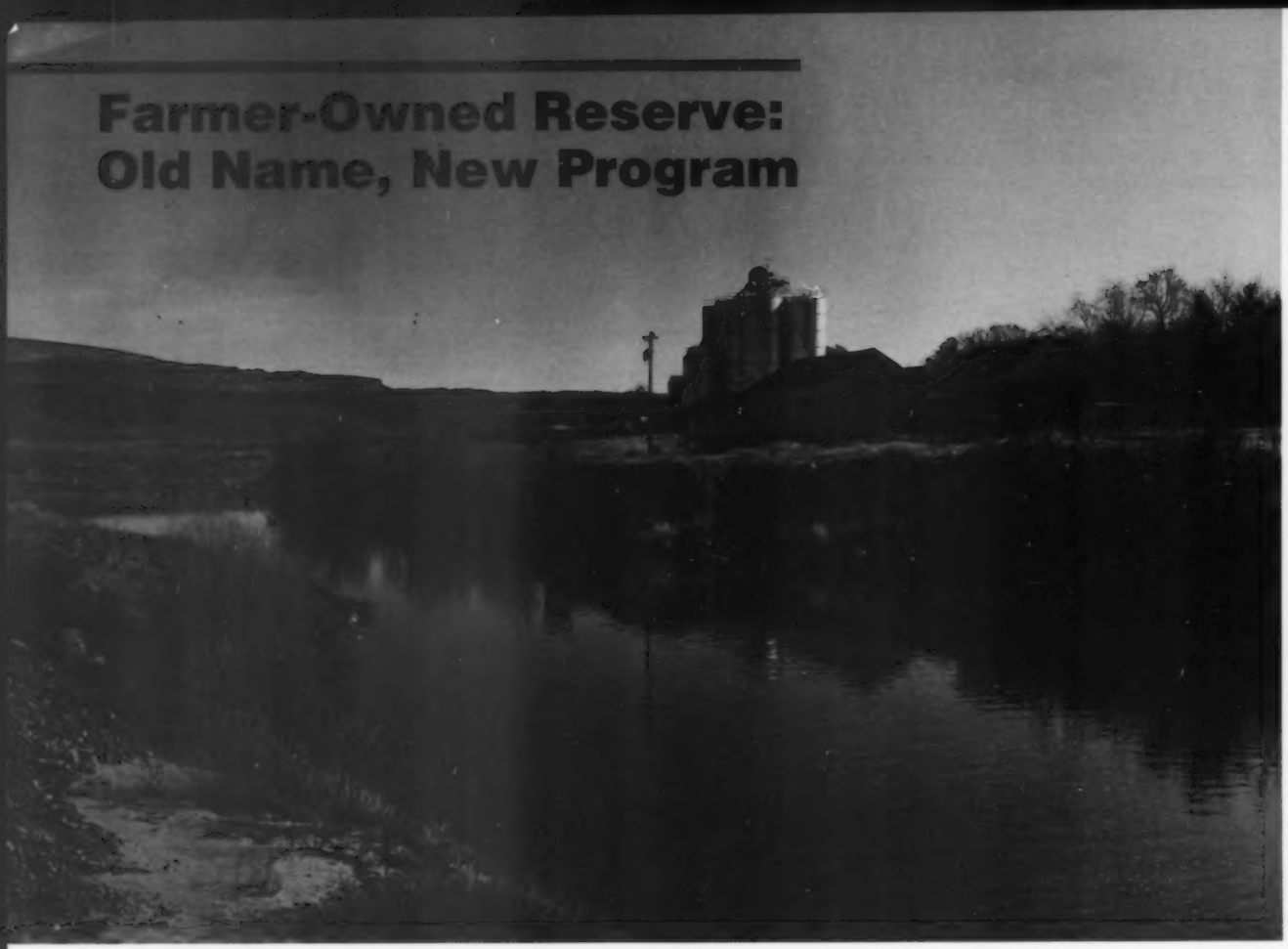
Farmer-Owned Reserve: Old Name, New Program



The Farmer-Owned Reserve (FOR) is a familiar term in American agriculture.

But following major revisions in the 1990 farm bill, "the FOR is now a new program under an old name," according to USDA economists Joy Harwood of the Economic Research Service and Craig Jagger of the Agricultural Stabilization and Conservation Service (ASCS).

How that restructuring came about—and why it was considered critical by lawmakers—touches upon the sensitive and sometimes controversial issue of the Government's role in shaping or influencing markets.

The FOR—old or new—is a variation on the regular, 9-month Commodity Credit Corporation (CCC) nonrecourse loan. These loans generally operate in the following manner:

"Using their corn or wheat as collateral, producers participating in the commodity program can obtain a 9-month 'nonrecourse' loan from the Commodity Credit Corporation," says Harwood. "The producers are responsible for any storage expenses and may repay the loan principal (with interest) at any time during the loan period. If the loan is not repaid by the end of the loan period, the CCC must take title to the grain in lieu of repayment." (In other words, the CCC has "no recourse" other than to accept the grain as full repayment of the loan and interest—hence, it is a "nonrecourse" loan.)

'The old program did not work as well as planned.'

The Old FOR

The old FOR was designed to provide grain producers with loan terms longer than 9 months (3 to 5 years) and with annual Government storage payments. Thus, the FOR was not necessarily offered to producers each year. The FOR loan rate was sometimes higher than the 9-month loan rate, and interest was often subsidized. Minimum and maximum FOR quantities have been changed several times since the program began in 1977. These FOR loans were designed to keep grain out of the market (but under producer ownership) when supplies were large and prices low. When non-FOR supplies declined and the market needed more grain, FOR supplies would become available. Farmers could not redeem FOR loans without facing stiff penalties when the reserve was not in release status. This effectively isolated the grain from the market.

"Under the original FOR, 'release' status determined whether FOR grain was generally available to the market," says Jagger. "The FOR was in 'release' status when market prices moved above a specified 'release price'—most recently the prevailing target price. Once in release status, produc-

ers could redeem their grain from the FOR without penalty."

"Through the release mechanism," he adds, "FOR stocks were isolated from the market until prices recovered. However, the release price has been sufficiently high during the 1980's that the FOR has not been in release status for wheat since January 6, 1981."

Producers have had opportunities to redeem FOR wheat loans in ways other than cash redemption, though. Since 1986, generic commodity certificates could be used to redeem FOR grain without penalty. Such certificates have been issued to farmers by USDA (instead of cash payments) for deficiency payments, ad hoc disaster assistance, and other programs.

The certificates are negotiable and producers may buy or sell them in the open market. Producers have been able to use generic certificates to redeem their FOR loans at the posted county price (PCP). To determine the number of wheat bushels that can be redeemed by, say, a $1,000 certificate, the face value of the certificate is divided by the PCP for the day. The PCP is determined daily in each ASCS county office, based on terminal prices and local conditions. The PCP is a proxy for the local market price.

If the PCP on a given day is $2.50 per bushel, a $1,000 generic certificate will redeem 400 bushels of wheat on that day. When loans are redeemed with certificates, no interest is charged. If the original loan rate for the FOR wheat was $4 per bushel (the 1982 FOR loan rate), producers would, in effect, pocket the $1.50 per bushel difference between the original loan rate and the certificate repayment rate.

A Disappointing Record

The old reserve program did not work as well as planned and the quantity of wheat in the FOR during the early 1980's (over 1 billion bushels) was more than all but the FOR's staunchest advocates could justify. "No wheat was allowed into the old program after the 1985 crop," says Jagger.

One of the major problems was that producers had already received a higher-than-market return from the generous FOR loan rates of the early 1980's.

The FOR loan principal amount from the high FOR loan rates of the early 1980's exceeded market prices during much of the decade. Producers with FOR loans from high-rate years were guaranteed a return that was higher than the current market return if they simply maintained wheat in the FOR and forfeited it to the CCC at maturity.

High loan principal amounts could also be retained if FOR loans were redeemed with certificates. For many producers, though, returns from redeeming FOR wheat with certificates and selling it on the market did not offset storage returns from maintaining wheat in the FOR and gave them no relative advantage over forfeiting to the CCC, because they would still receive the loan rate either way.

These storage payments provide another reason why grain often was slow to move out of the FOR. Government storage payments provide part of producers' returns from maintaining wheat in the FOR. Redeeming wheat from the FOR before maturity caused farmers to lose annual FOR storage payments of 26.5 cents per bushel.

1990-Crop Wheat Can Be Placed in FOR

For the first time since 1985, wheat can again be placed in the Farmer-Owned Reserve. It's a revamped reserve program, though, and FOR placements will not come close to the bin-busting level of a billion bushels of wheat (reached in 1983) stored under the old FOR.

Even so, opening the FOR to 1990-crop wheat will help reduce free stocks and buttress wheat prices.

"Actual FOR placements will likely be less than the maximum 300 million bushels announced by the Secretary of Agriculture in December 1990," says ERS economist Joy Harwood. "This is because entry is based on producers' announced intentions filed earlier this year with USDA."

According to the intention statements—which were required of producers in January 1991—a maximum of 239 million bushels may enter the FOR program. For 1990-crop wheat to be eligible for the FOR, it must have been placed under 9-month loan with the Commodity Credit Corporation by January 31, 1991. FOR entry can only take place after this 9-month period ends.

The decision to reopen the FOR to wheat was made after looking at the price and stocks-to-use conditions.

Specifically, the two conditions which triggered the FOR for wheat were:

Price—The average market price for the 90 days preceding December 15, 1990, was less than 120 percent of the announced 1990 loan rate (in this case, 120 percent of $1.95, or $2.34).

Stocks-to-Use—The projected stocks-to-use ratio at the end of the 1990 crop year (May 31, 1991) is more than 37.5 percent.

"The 1990 Farm Act requires the Secretary of Agriculture to make FOR decisions based on an evaluation of these two conditions," says ASCS economist Craig Jagger. "The Secretary must allow entry of wheat into the FOR when both conditions are met. If only one condition is met, the Secretary may allow entry into the FOR, but is not required to do so."

Based on USDA supply and use estimates in early December 1990, USDA analysts estimated that the 1990 ending stocks-to-use ratio would be 39.6 percent, Jagger says. "Therefore, the stocks-to-use condition was met. The average 90-day market price of $2.44 was 10 cents above the price trigger, however, so the price condition was not met and the decision on whether to open the FOR became discretionary."

"Some aspects of the new FOR will encourage placements—when compared with the old FOR—while other aspects will discourage FOR placements," says Jagger. "Compared to the old FOR rules, FOR placements under the new rules will likely increase because producers can redeem FOR loans at any time without penalty."

On the other hand, he says, "FOR placements could be less than historic patterns would indicate—because of the change in the timing of storage payments from annual (paid in advance) to quarterly (paid after the fact)—and because the FOR loan is lower in absolute terms than the $3.30 to $4.00 FOR loan rates of the early 1980's."

For both the 1990 and 1991 crop years, Jagger says, opening the FOR is expected to cause slightly higher market-year prices because fewer free stocks will be available.

"We estimated last December that 200 million bushels of 1990 wheat would be placed in the FOR," he says. "Based on this quantity, we would expect market prices to increase sufficiently that Federal deficiency payments for the 1991 wheat crop would decline by about $70 million. The decline in deficiency payments is estimated to be more than offset by a $110-million increase in the market value of production and by $40 million in Government FOR storage payments."

Thus, wheat sector income (including deficiency payments) is estimated to increase by $80 million from opening the FOR program to 1990-crop wheat. Changes in market conditions may lead to lower-than-estimated placements, however, which would change the market impacts.

Because storage payments were made for a year in advance, some farmers who redeemed loans in the middle of the year had to repay a portion of the storage payments they had received.

An examination of FOR storage reports from ASCS suggests that about 75 to 80 percent of FOR wheat has been stored on farms in recent years. FOR storage payments have offered a return to farmers' investments in storage facilities.

Less important factors that had a hand in changing the FOR were rotation policies and tax provisions.

Some producers have taken advantage of FOR policies that allowed them to rotate and sell FOR wheat as long as they replaced it within 60 days. Producers had an annual opportunity to sell wheat before harvest at higher prices and replace it with

wheat that, because it was right after harvest, was worth less.

The rotation policy was designed to maintain the quality of wheat in the FOR. Farmers were allowed to use purchased wheat for rotation. New rotation rules, adopted in 1990, require that producers may replace FOR stocks only with grain produced on the farm.

On the tax side, special Internal Revenue Service Code tax provisions have allowed producers to defer the declaration of the proceeds of CCC price support loans as income until maturity of the loan. For producers using these tax provisions, taxes have been due when grain was redeemed from the FOR or forfeited to the CCC.

Reshaping the Reserve

During the debate over the 1990 Farm Act, policymakers in the executive and legislative branches expressed dissatisfaction with several provisions of the "old" FOR. USDA's comprehensive "green book" of farm bill proposals noted that:

"The FOR has evolved into such a plethora of trigger prices, entry and extension decisions, storage payment rates, and interest charges, that it has become questionable whether the results justify the costs."

Congressional managers in the 1990 Farm Act's conference report noted that:

"The Managers feel that the FOR has not been operated in an efficient manner...The program has had the effect of completely isolating the reserve from the market...The Managers intend that the changes made in the Act will allow for a more orderly flow of grain into and out of the FOR."

"To address the problems outlined above, the 1990 Farm Act reshaped the Farmer-Owned Reserve," says Harwood. "Policymakers felt that needed changes in the FOR were sufficiently important to make the new provisions effective immediately on December 1, 1990, for the 1990 wheat and feed grain crops. Most of the 1990 Farm Act's other provisions become effective with the 1991 crops."

The new FOR provisions focus on increased market responsiveness and greater commercial availability of stocks.

"Among the major changes," says Harwood, "are that producers may redeem FOR loans at any time without penalty, and that storage payments will be made at the end of each quarter following FOR entry, rather than annually in advance."

Moreover, she says, the FOR contract length is shortened to 27 months following expiration of a regular 9-month loan. Only one 6-month extension (at the option of the Secretary of Agriculture—not the producer) is allowed.

"Significantly, too, grain cannot be entered directly into the FOR," says Harwood. "It must first be placed under a 9-month loan which must reach maturity before entry is allowed."

"The new FOR is simpler and more closely aligned with market conditions," Jagger adds. "Farmers have more control over marketing of their FOR grain because they have the option of removing it at any time without penalty. The new FOR does not isolate wheat from the market as effectively as the old FOR, though, so its impact on prices is likely to be reduced." □

[Based primarily on information provided by economists Joy Harwood of the Commodity Economics Division, Economic Research Service, and Craig Jagger of the Agricultural Stabilization and Conservation Service.]

Fast Food Restaurants Help Boost Broiler Consumption

America's love of chicken seems to be endless and the fast food industry is cashing in on that appetite, resulting in increased production and consumption of broilers.

Higher consumption over the last 30 years has been attributed to lower prices compared with other meats, an abundant supply of chicken, and, more recently, consumer health concerns. Particularly in the last few years, increased consumption has been spurred by the fast food industry, which has been offering more chicken items on menus.

Broilers are young chickens, usually 3 to 5 pounds and 6 to 8 weeks old, produced for their meat. They are also sometimes called fryers.

Per capita consumption of broilers increased from 46.7 pounds in 1980 to 70 pounds in 1990, with estimates of 73 to 74 pounds for 1991, according to economist Lee Christensen of USDA's Economic Research Service. How much of this increased consumption is attributed to new products offered by the fast food industry?

Bill Roenigk of the National Broiler Council says there is a shift toward fast food chicken consumption at the expense of grocery store sales. The foodservice industry (restaurants) used 30 percent of the broilers in 1981 and 41 percent in 1989, he says. The share of broiler production sold in grocery stores, meanwhile, fell from 70 percent in 1981 to 59 percent in 1989.

Grocery stores' share of sales continues declining.

Christensen contends that the fast food industry offers a market network to put chicken before the consumer in a lot of places. It works with the poultry industry to tailor products for its needs. An example would be marketing research done by the fast food industry to come up with the ideal cut and weight of chicken portions that would benefit their business.

The number of fast food restaurants serving chicken has been increasing regularly. Kentucky Fried Chicken was the primary outlet in the early 1980's. Today, other chains such as Popeye's and Church's Fried Chicken specialize in chicken, while McDonald's, Hardee's, Wendy's, Burger King, and others feature chicken on their menus.

Retail Grocery and Foodservice Market Share for Broilers

	1981		1983		1985		1987		1989		1995	
	%	Bil. lbs.	%	Bil. lbs.	%	Bil. lbs.	%	Bil. lbs.	%	Bil. lbs.	%	Bil. lbs.
Retail grocery	70	7.9	67	8.0	59	7.8	60	8.9	59	9.8	55	12.6
Foodservice	30	3.4	33	4.0	41	5.5	40	5.9	41	6.8	45	10.4
Fast food share of foodservice	75	2.6	72	2.9	65	3.5	75	4.4	72	4.9	75	7.8
Total	**100**	**11.3**	**100**	**12.0**	**100**	**13.3**	**100**	**14.8**	**100**	**16.6**	**100**	**23.0**

Domestic consumption only—excludes exports and shipments.
1995 forecast.
Source: National Broiler Council.

Fewer Whole Broilers Sold

Even though the total amount of broiler meat sold at the retail market level went up between 1981 and 1989, the market share went down. The demand for chicken at the retail level has also changed over the years as to the type of broiler meat consumers buy. Chicken can be classified in three ways: "whole," "cut-up and parts," and "further processed."

"Cut-up" chickens are usually in eight or nine pieces, with some halved or quartered. "Parts" usually means one or more pieces of the same part packaged together, such as two breasts or four drumsticks. "Further processed" refers to products prepared by cooking, smoking, grinding, deboning, dehydrating, or otherwise prepared beyond the cut-up stage.

Sales of whole chickens have been decreasing. With today's two-income families, many people don't have time to cut up chicken for home cooking. The National Broiler Council says that in 1962, 83 percent of the broilers marketed were whole, but by 1990 the proportion was down to 18 percent of retail sales. Whole broiler sales are expected to be only 12 percent in 1995, according to Council projections.

Cut-up and chicken parts, on the other hand, went from a market share of 15 percent in 1962 to 56 percent by 1990. The projection for 1995 is around 50 percent. According to Roenigk, "cut-up and parts as a market form will likely stabilize in the future but an increase in certain types of parts, such as boneless, skinless breasts and, to a lesser extent, skinless thighs will continue to expand."

Further processed items also have been gaining in popularity at the retail level. In 1962, further processed chicken accounted for only a 2-percent market share. By 1990, the share was 26 percent, of which about 80 percent was boneless. Included in this category are value-added products such as

nuggets, which have become a big seller in the last 10 years, according to Roenigk. Other further processed items include chicken strips, patties and, more recently, versions of "buffalo wings," which are spicy chicken wings.

A number of food manufacturers now sell buffalo wings. Bob Justice of Tyson Foods says that Tyson has been selling buffalo wings for about 4 years. They are hot sellers in the fall, while nuggets sell consistently year-round, he says. Marie Becky of Perdue, Inc., says her company has been selling spicy wings for several years, as well as other fully cooked products, such as breaded and flavored chicken. Some chicken products have also been geared toward children. Perdue sells cheese-flavored and fun-shaped chicken.

A more recent addition has been ground chicken, which looks and cooks like hamburger, says Roenigk. "It has usually between 7 and 10 percent fat. Ground turkey has been on the market longer. Consumers buy it to try something different or for nutritional reasons and find they like ground poultry."

"Summertime usually means increased consumption of broiler meat," according to Christensen. He explains that during the time from Memorial Day to Labor Day, there are more picnics and cookouts, and chicken is a very popular item. It is also traditionally vacation time, when more Americans travel and eat in fast food restaurants.

Poultry industry quarterly data show that the second and third quarters (basically spring and summer) typically have higher broiler consumption and production.

Centered in the Southeast

Historically, the broiler industry developed in the Southeast and Delmarva Peninsula and remains concentrated in what is referred to as the "broiler belt." This comprises the Delmarva Peninsula of Delaware, Maryland, and Virginia, the Southeastern States of Georgia, Alabama, North Carolina, and Mississippi, and the West South Central States of Arkansas and Texas. California is the only State with large production outside this area, says economist Agnes Perez of ERS. The five leading broiler producing States in 1989 were Arkansas, Georgia, Alabama, North Carolina, and Mississippi. They accounted for 63 percent of U.S. production. □

[Based primarily on information provided by economists Lee Christensen and Agnes Perez of the Commodity Economics Division, Economic Research Service.]

How Broilers Are Marketed

Year	Whole	Cut-up/ parts	Further processed
		Percent	
1962	83	15	2
1963	81	16	3
1964	80	18	2
1965	78	19	3
1966	77	20	3
1967	74	22	4
1968	72	23	5
1969	71	25	4
1970	70	26	4
1971	66	28	6
1972	65	30	5
1973	62	31	7
1974	63	31	6
1975	61	32	7
1976	58	35	7
1977	54	38	8
1978	54	38	8
1979	54	37	9
1980	50	40	10
1981	45	44	11
1982	39.5	48	12.5
1983	33.5	51.7	14.8
1984	30.7	52.0	17.3
1985	29.1	53.4	17.5
1986	22.1	57.0	20.9
1987	22.0	56.0	22.0[1]
1988	19.5	57.0	23.5
1989	19.0	57.0	24.0[1]
1990	18.0	56.0	26.0
1991	16.0	56.5	27.5
1992	15.0	56.0	29.0
1993	14.0	54.0	32.0
1994	13.0	53.7	33.3
1995	12.0	52.0	36.0

[1]Boneless chicken accounted for 75% of further processed chicken in 1987 and 80% in 1989.
1990 estimated, 1991-95 forecast.

1991 Reports Calendar

July-December

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The ***World Agricultu Demand Estimates*** *r the World Agricultura are also shown in col*

JULY

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
1 Farm Production Expenditures, 1990-Preliminary	2 Egg Products Poultry Slaughter	3	4	5
8 Celery Dairy Products	9 Noncitrus Fruits & Nuts-Annual	10	11 World Agricultural Supply & Demand Crop Production	12
15 Livestock & Poultry Milk Production Turkey Hatchery	16 China	17 Rice Yearbook	18 Dairy Vegetables	19 Agricultural Outlook Catfish
22 U.S. Agricultural Trade Update Eggs, Chickens, & Turkeys	23 Livestock & Poultry Update Cattle on Feed Cold Storage Livestock Slaughter	24 Mink	25 Oil Crops Yearbook	26 Food Review
29 Cattle	30 Peanut Stocks & Processing Farm Numbers & Land in Farms	31 Pacific Rim Agricultural Prices Catfish Production		

AUGUST

MONDAY	TUESDAY	WEDN
5 Dairy Products	6	7 Celery
12 World Agricultural Supply & Demand Crop Production	13 Farm Labor	14 Turkey
19 Feed Cattle on Feed	20 Agricultural Outlook U.S. Agricultural Trade Update Catfish Cranberries Mushrooms	21 Sugar Stat
26 Wheat	27 Dairy Yearbook	28 Cotton Yearb

OCTOBER

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
	1 Trout Production	2 Egg Products Poultry Slaughter	3	4 Dairy Products
7 Celery	8	9	10 World Agricultural Supply & Demand Crop Production	11 Vegetables
14	15 Turkey Hatchery	16 Agricultural Resources[1] Milk Production	17	18
21 Agricultural Outlook U.S. Agricultural Trade Update Catfish	22 Dairy Cattle on Feed Cold Storage	23 Rice Eggs, Chickens, & Turkeys	24 Oil Crops	25 Livestock & Poultry Update Food Review Livestock Slaughter
28	29	30 Peanut Stocks & Processing Catfish Production	31 Agricultural Prices Rice Stocks	

NOVEMBER

MONDAY	TUESDAY	WEDN
4	5	6 Dairy Pr
11	12 World Agricultural Supply & Demand Crop Production	13 Farm La
18 Catfish	19 Wheat Cattle on Feed	20 Agricul
25	26	27 Agricultu Peanut S & Proc

[1]The Agricultural Resources report focuses on Cropland, Water and Conservation September 23; and Inputs October 16.

on any of these reports, write , P.O. Box 1608, Rockville, 608, or call 1-800-999-6779. **Agricultural Supply and stimates** reports, issued by Agricultural Outlook Board, own in color. These reports are issued in their entirety at 3 p.m. ET on the indicated dates.

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SEPTEMBER

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
			1 Egg Products Poultry Slaughter	2 Farm Production Expenditures, 1990-Final
7 Celery	8 Vegetables	9	10	11
14 Turkey Hatchery	15 Fruit & Tree Nuts Yearbook Milk Production	16 Livestock & Poultry	17	18
21 tlook Sugar Market Statistics	22 Vegetables & Specialties Eggs, Chickens, & Turkeys	23 Livestock & Poultry Update Cold Storage Livestock Slaughter Hazelnut Production	24	25
28 Cotton & Wool Yearbook	29 Exports Peanut Stocks & Processing Pistachio Production	30 Agricultural Prices		

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
2	3	4 Walnut Production	5 Western Europe Egg Products Poultry Slaughter	6 Celery Dairy Products
9	10 Vegetables	11 Agricultural Income & Finance	12 World Agricultural Supply & Demand Crop Production	13 Milk Production Turkey Hatchery
16	17 Tobacco	18 Sugar & Sweeteners Cattle on Feed	19 Fruit & Tree Nuts Catfish	20 Agricultural Outlook U.S. Agricultural Trade Update
23 Agricultural Resources Livestock & Poultry Update Hop Stocks Cold Storage Livestock Slaughter	24 Eggs, Chickens, & Turkeys	25 Aquaculture Citrus Fruits	26 Potatoes	27 Hogs & Pigs Peanut Stocks & Processing
30 Agricultural Prices Grain Stocks				

DECEMBER

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
				1 African Food Needs Egg Products Poultry Slaughter
6 Dairy Products	7 Celery	8	9	10
13 ral Farm Labor and	14 Livestock & Poultry Turkey Hatchery	15 Fruit & Tree Nuts Milk Production	16	17
20 Agricultural Outlook	21 Cotton & Wool U.S. Agricultural Trade Update Sugar Market Statistics	22 Feed Livestock & Poultry Update Cold Storage Eggs, Chickens, & Turkeys Livestock Slaughter	23	24
27 Agricultural Prices Peanut Stocks & Processing	28	29	30	31

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
2	3 OUTLOOK CONFERENCE Exports Egg Products Poultry Slaughter	4 OUTLOOK CONFERENCE	5 OUTLOOK CONFERENCE Dairy Products	6 Celery
9	10	11 World Agricultural Supply & Demand Crop Production	12 Vegetables & Specialties Yearbook	13 Sugar & Sweeteners Milk Production
16 Agricultural Income & Finance Potato Stocks Vegetables	17 Tobacco Yearbook Turkey Hatchery	18 Cattle on Feed	19 Agricultural Outlook Catfish	20 U.S. Agricultural Trade Update
23 Livestock & Poultry Update Cold Storage Livestock Slaughter Eggs, Chickens, & Turkeys	24	25	26	27
30 Peanut Stocks & Processing	31 Agricultural Prices			

Economic Impact of the Elderly Not Always a Boon

Retirees moving into rural areas sometimes account for substantial amounts of additional income for those localities. Between 1985 and 1990, for example, retirees from New York transferred $1.7 billion to Florida, according to the October 1989 issue of *American Demographics*.

The stable incomes of elderly people tempt local officials to launch campaigns to attract retirees, according to economist Robert A. Hoppe of USDA's Economic Research Service. Development planners try to capitalize on the amenities of the area, such as lakes, mountains, a pleasant climate, or cultural activities, rather than on "smokestack chasing" or encouraging local manufacturing to expand.

Such a strategy is not a cure-all. "The relationship of elderly income to the local economy is complex," Hoppe says. Attracting retirees may be a viable development strategy for some rural areas. But the advantages and disadvantages should be weighed.

Officials should examine the sources of the elderly's income, their uses of the money, and how many want to migrate to rural areas, Hoppe says.

Urban and rural residents generally receive about the same share of their income from such sources as government programs, private retirement, and property.

Average incomes of the elderly were 26 percent higher in urban than in rural areas. About one-fifth is earned, in both rural and urban areas, as some elderly people work full- or part-time. Some also have spouses that work.

The rest of the elderly income, labeled "unearned," comes mostly from such government programs as Federal and State retirement, veterans' benefits, welfare, and Social Security. These programs provided 53 percent of the income of the rural elderly and 46 percent of that of the urban elderly. Social Security accounted for the largest share. The rural elderly collected $5,870 per household from Social Security, or $2,278 more than from property, which was the next largest source of income during 1983-84.

Many of the elderly are poor and need services.

Property or investments included dividends and interest, rent, income from estates or trusts, and income from royalties. Interest from savings institutions, such as banks and credit unions, leads the list.

"The preference of the elderly for such savings accounts is understandable, considering their regular interest payments and Federal insurance," Hoppe says.

Interestingly, private pensions added little to the income of the elderly in either rural or urban areas. For example, only about half the workforce is covered by retirement plans, according to the U.S. Department of Labor's *Trends in Pensions* (1989). And the plans are often "integrated" with Social Security, which means a formula is applied that can halve a pension, according to the Pension Rights Center, a nonprofit, educational organization based in Washington. Also, few plans adjust for cost-of-living, and some plans allow new retirees to take all or part of their payment in a lump sum, which reduces the total pension check during retirement.

Changes in Social Security, the largest provider of income for the elderly, will critically affect both recent migrants as well as long-term rural residents. Lower benefits, delays in cost-of-living adjustments, or moves to raise the retirement age could diminish local spending by the elderly. A declining ratio of workers to retirees could reduce support for future benefit increases. The ratio of people aged 20-64 to those aged 65 or older is projected to decline from about 5 to 1 in 1986 to 2.5 to 1 in 2033, when it will stabilize for several decades, according to the Social Security Administration.

Also, payroll taxes may have to be raised over the next 75 years to pay for Social Security and Medicare, according to the Brookings Institution, a private, nonprofit research organization based in Washington. Currently, the rate is 15.3 percent, to which another 6.9 percentage points would have to be added. This amount represents a 45-percent increase in the rate that employers and employees currently pay. Future employers and employees may balk at paying payroll taxes to support this increase, according to Hoppe.

Even without changes in Social Security, the income of many elderly may prove insufficient. Many elderly are poor and even the so-called "comfortably retired," whose income is at least twice the poverty level, may eventually have financial difficulty. "Comfortably retired" refers to about 11.7 million people in urban areas and 3.9 million in rural areas. Hoppe points out, however, that living at double the poverty level does not mean affluence. In 1989, an elderly person living alone at this level had $11,890 and an elderly couple $14,987.

About 18 percent of the rural elderly are classified as poor, about twice the rate of

their urban counterparts. Those aged 75 or older in rural areas are nearly twice as likely to be poor as those between 65 and 74. They may have outlived their assets or may never have received as much income as the younger groups.

"For some rural areas, finding ways to provide these people with medical facilities, transportation, meals-on-wheels, and other services may be a more pressing issue than devising ways to attract more elderly," Hoppe says.

As the younger elderly age, their incomes may come to resemble those of individuals aged 75 and over. On the other hand, they may never be as poor as those people in that group now, because real wages have risen over time. As a result, future Social Security and pension benefits should be higher for more recent retirees.

In addition, longer life expectancy means that more elderly Americans will spend more of their lives suffering from chronic medical problems. Even retirement areas attracting the well-to-do will have to deal with the health problems of the very old, Hoppe says.

Of course, local areas do not have to bear all the health care costs. In 1984, for example, government and private health insurance paid for about 69 percent of the elderly's medical expenses. Local taxes generated by retirement income can offset some local public costs. Providing health care to the elderly can generate business opportunities and jobs.

In the long term, a large number of elderly people relying on Medicaid to pay the costs of nursing home care could strain a State government's finances. Medicaid is a Federal-State program that pays medical costs for certain groups of low-income people. In 1984, Medicaid paid about 41 percent of the elderly's nursing home costs.

Areas trying to attract the elderly could try to target their appeals to those comfortably retired, or having income at least twice that of the poverty level. Some areas may want to appeal to the elderly with income at least four times the poverty level, but only 5.4 million people, just 20 percent of the total elderly population, fall into that group.

Another consideration for local areas wishing to attract elderly residents is the willingness of these people to move. The elderly generally stay where they have spent their

Defining Terms: A Gray Area

In this article, "elderly" means people at least 65 years old. This is the most common definition, and the traditional retirement age. German Chancellor Otto Von Bismarck has been credited with selecting 65 as the minimum retirement age in the 1880's. He actually picked 70. During World War I, Germany lowered the age to 65. Benefits were generous, but life was short, so the country's retirement program cost little.

Other countries were also setting up pensions at this time, with varying ages for retirement. Although Austria adopted age 65 in 1906, Great Britain selected age 70 in 1908; France, age 60 in 1910; and Hungary, age 60 in 1928. In 1935, the United States chose age 65.

Today, age 65 as a cut-off date for the elderly may be an anachronism, according to ERS economist Robert A. Hoppe. However, since this date is used most often, the results of his investigation will be comparable with other statistics and studies on the aging population.

The elderly could have been defined simply as those who have retired. Current retirement programs, public and private, frequently encourage workers to retire before age 65.

One common practice is to analyze the group of people above an arbitrary age, such as 55 or 60, who are not in the labor force. This procedure, however, excludes those at least 65 years old who continue to work. About 17 percent of the men and 8 percent of the women aged 65 or more still were in the labor force in 1989. Exclusion of these workers from the analysis, Hoppe says, is undesirable, because he wishes to examine the sources of income of all the elderly, however defined, including the working elderly.

In this article, an *urban* area is made up of a county or counties with a city of 50,000 or more. Additional counties may be classified as urban if they have strong commuting ties to the central county. *Rural* means outside urban areas, and includes small towns.

In general, urban and rural refer to metro and nonmetro areas, as defined by the Office of Management and Budget. *Metro* means an area with a large population economically and socially integrated with adjacent communities. Generally, the area has a central city or core of at least 50,000 residents and a total population of 100,000 or more. *Nonmetro* areas are outside metro areas, including small towns.

adult lives, and move less than other groups. Not all migration is toward retirement areas. For example, substantial numbers moved out of Florida to States that send migrants to Florida.

Many of these people went to Florida when they first retired, but returned to their State of origin to be near family members when a spouse died or they had financial or health problems, as noted in "The Graying of the Sunbelt: A Look at the Impact of U.S. Elderly Migration," by Jeanne C. Biggar in *Population Trends and Public Policy*, No. 6, October 1984.

"The elderly should not be viewed solely as well-heeled customers for rural businesses," Hoppe says. "Many elderly are poor and need services. As they age, their health can deteriorate and they can outlive their assets."

Hoppe concludes: "Capturing the income of the elderly in local economies may be a viable development option for some rural areas. But property and government income of the elderly is not a rural development panacea in either the short or the long run." □

[Based primarily on information provided by economist Robert A. Hoppe of the Agriculture and Rural Economy Division, Economic Research Service.]

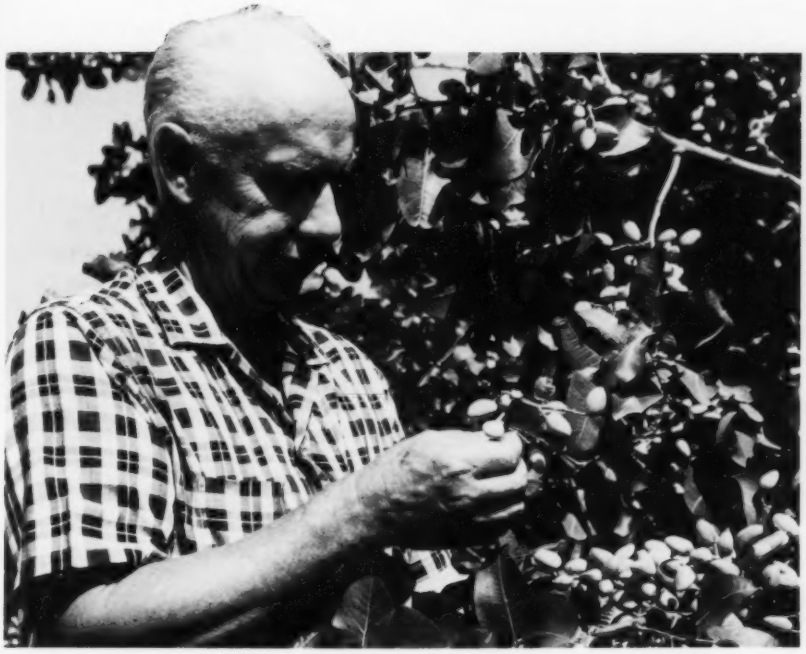
Sources of Elderly Household Income in Rural And Urban Areas, 1983-84

	Rural		Urban	
	$/household	*Percent*	*$/household*	*Percent*
Earnings	2,518	17.0	3,913	21.0
Unearned income	12,233	82.5	14,764	79.1
Government program payments[1]	7,865	53.0	8,617	46.1
Retirement and related programs[2]	7,300	49.2	8,202	43.9
Private transfer payments[3]	776	5.2	1,441	7.7
Retirement[4]	742	5.0	1,408	7.5
Property income	3,592	24.2	4,706	25.2
Total income	**14,835**	**100.0**	**18,676**	**100.0**

[1] Includes unemployment insurance, veterans' benefits, and welfare not shown separately.
[2] Social Security, Federal civilian retirement, State and local government retirement, railroad retirement, military retirement, workers' compensation, State temporary disability payments, and black lung payments.
[3] Includes money from relatives or friends, charity, alimony, and child support not shown separately.
[4] Mostly private retirement payments, such as pensions from companies or unions.
Items may not add up to totals because of rounding and because of some miscellaneous items not shown separately.

— Photo by J. Norman Reid

Tree Nut Production Grows Rapidly



The farm value of last year's nut crop topped $1 billion.

The U.S. tree nut industry is booming. Domestic and overseas markets are expanding.

But new subsidy programs in the European Community (EC) could make the EC a tougher competitor in the world nut market.

"Tree nut production, consumption, and exports are just going right on up," says economist Doyle Johnson of USDA's Economic Research Service. "Growth in the industry has been very significant."

U.S. tree nut production in 1990 totaled 964,000 tons, in-shell basis, according to preliminary reports. That was 20 percent higher than 1989 and 7 percent above 1988. The farm value of the nut crop last year was more than $1 billion, up about 25 percent from 1989 and 5 percent from 1988.

The upward trend in production for the 1990's is expected to slow down as plantings in the 1980's were lower than removals. The tax incentives to plant orchards were eliminated and the heavy plantings during the 1960's and 1970's did not continue into the last decade.

Almonds Are Exported Mostly to Europe and Japan

If exports continue to grow and domestic production stabilizes, then growers may see general price increases during this decade.

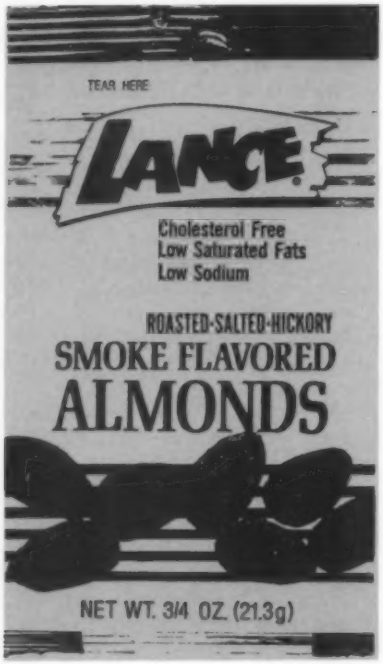
Gauging the net value of the tree nut crop is difficult because growing the nuts requires a major investment in time and money. Nut-bearing trees generally do not reach full productive capacity for 7 to 10 years. Typically, a California tree nut grower will spend $8,000 to $10,000 per acre to establish an orchard and then will incur additional expenditures for the next several years—until it starts to produce a crop and begins to make a return on the investment.

The six domestic tree nuts are almonds, walnuts, pecans, pistachios, hazelnuts (also called filberts), and macadamias. All are grown in California except hazelnuts, which are found primarily in Oregon and to some extent in Washington State, and macadamia nuts, which are grown only in Hawaii. Pecans are produced in 16 States, including California.

Farm values in 1990 included almonds, $542 million; pecans, $246 million; pistachios, $129 million; macadamias, $45 million; and hazelnuts, $18 million. Last year's figures for walnuts are not available yet, but the total for 1989 was $245 million.

Almonds, with a 1990/91 supply of 830 million pounds, accounted for more than half of the total domestic tree nut supplies. Total U.S. consumption of nearly 600 million pounds (shelled basis) each year includes about 125 million pounds of imported tree nuts, mostly cashews, Brazil nuts, and others such as Chinese pinenuts or pignolias.

Tree nuts are more popular today, Johnson says, because they have properties that Americans want. They're high in fiber. They're nutritious. They make a great snack food in an age of "fast food." And more nuts are being used in other food products, especially cereals.



Not surprisingly, consumption of tree nuts has been steadily increasing. In the 1989/90 marketing year, per capita consumption in the United States was a record 2.35 pounds, up from 2.31 the year before. Per capita consumption was only 1.58 pounds in 1974/75. Consumption of almonds, pecans, and pistachios rose the most.

Nuts are sold in the United States either in the shell or shelled. Major users range from confectioners for shelled almonds to grocery wholesalers for in-shell walnuts and hazelnuts. Most pistachios are sold in-shell as a snack item. Unshelled pistachios are usually shipped to Hong Kong or China and artificially cracked, then shipped back to the United States, Johnson says.

Most tree nuts are important export products, Johnson says. The almond crop is the biggest, with about three-fourths of the crop sold overseas each year. Nearly 125,000 metric tons of shelled almonds (most almonds are sold shelled) were exported in 1989. That's up from only 27,000 in 1970.

The other nuts have shown similar dramatic increases in exports.

"The Japanese and the Europeans, especially the Germans and the French, are our best customers for tree nuts," Johnson says. The United States is the leading supplier of almonds and walnuts to the EC.

But the EC is also a major competitor. Spain and France, in particular, compete with the United States in almond and walnut production, respectively. That's why EC subsidies are of great concern here, Johnson says. In 1989, the EC launched a 10-year program to assist its tree nut producers. The program includes low-cost loans, technical assistance, and other forms of help for tree nut producers, though not direct subsidies. The program has stemmed the decline in EC tree nut acreage.

Most Tree Nuts Are Grown in California, With Almonds the Biggest Crop

Crop and State	*1988*	*1989*	*1990*
		1,000 lbs. (in-shell)	
Almonds			
California	590,000	490,000	655,000
		1,000 lbs. (in-shell)	
Macadamia nuts			
Hawaii	45,500	50,500	53,500
Pistachios			
California	94,000	39,000	118,000
		short tons (in-shell)	
Hazelnuts			
Oregon	16,300	12,800	22,500
Washington	200	200	300
Total	16,500	13,000	22,800
Walnuts, English			
California	209,000	229,000	220,000
		1,000 lbs. (in-shell)	
Pecans			
North Carolina	5,500	700	500
South Carolina	6,500	1,000	1,000
Georgia	110,000	85,000	70,000
Florida	6,000	7,000	4,600
Alabama	10,000	22,000	6,000
Mississippi	10,000	8,500	3,000
Arkansas	3,000	1,000	400
Louisiana	22,000	14,000	5,000
Oklahoma	47,000	9,000	6,500
Texas	60,000	55,000	65,000
New Mexico	26,000	29,000	31,000
California	2,200	2,000	3,000
Total	308,200	250,500	216,200

1990 preliminary.
Source: National Agricultural Statistics Service, USDA

U.S. Exports of Tree Nuts Increased Sharply in 1988, But Fell in 1989

	1987	1988	1989
	1,000 metric tons		
Almonds			
Shelled	92.8	141.3	124.9
In-shell	4.8	12.4	10.1
Walnuts			
Shelled	7.4	9.3	14.9
In-shell	55.9	48.0	52.0
Pecans			
Shelled	1.1	1.6	1.6
In-shell	0.8	1.6	2.4
Hazelnuts			
Shelled	1.5	1.3	1.2
In-shell	3.9	2.2	2.5
Pistachios			
Shelled	0.5	0.8	0.8
In-shell	1.3	1.0	4.3
Total	170.0	219.5	214.7

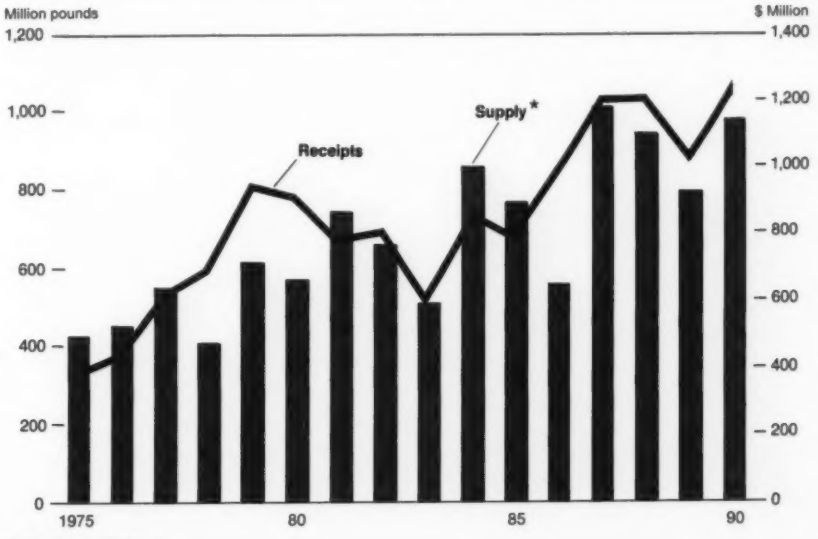
Source: U.S. Department of Commerce.

The United States has export programs for pecans, walnuts, almonds, and pistachios. There are Federal marketing orders for almonds, walnuts, and pecans. California has a State marketing commission to promote pistachios. The U.S. tree nut market could be affected by future global trade negotiations or multinational agreements, but for now the outlook is bright, Johnson says.

Although some growers in California, particularly in the southern areas of the Central Valley, are facing serious irrigation water shortages, the drought is not expected to significantly impact tree nut production this year, Johnson says. □

[Based primarily on information provided by economist Doyle Johnson of the Commodity Economics Division, Economic Research Service.]

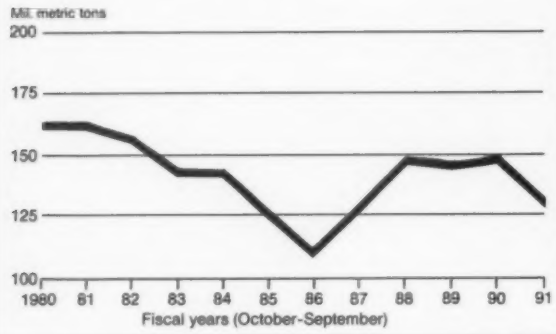
Tree Nut Growers' Cash Receipts Have Kept Pace with Supply



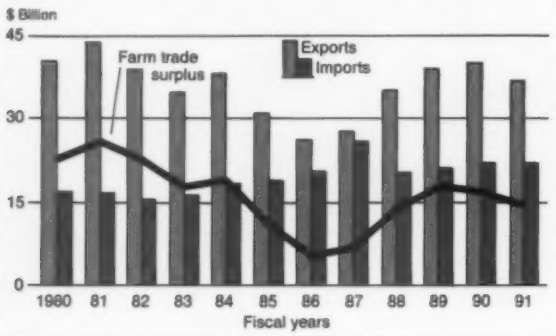
*Shelled basis production.

Outlook for U.S. Agricultural Exports Dims

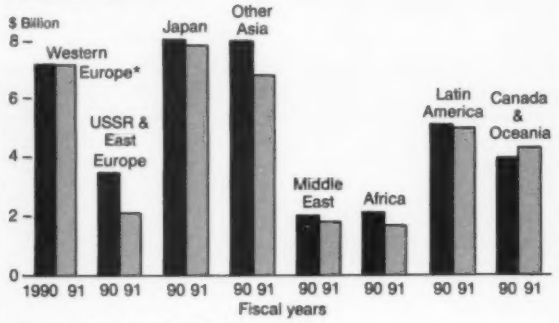
Volume of 1991 U.S. Agricultural Exports Is Forecast To Decline 18 Million Tons (12 Percent) From the Year Before



U.S. Agricultural Export Earnings Will Decline for the First Time in 5 Years While Imports Hold Steady, Nibbling at the Farm Trade Surplus

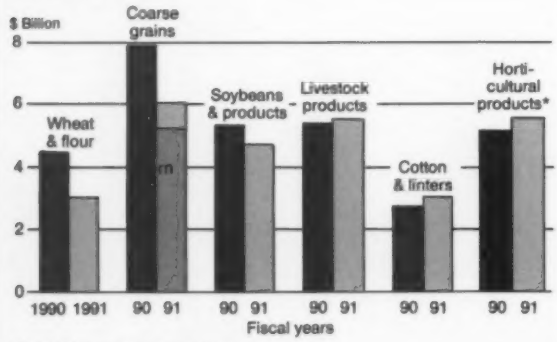


With World Trade Declining and Competition Increasing in Certain Key Markets, Many U.S. Customers Are Buying Less



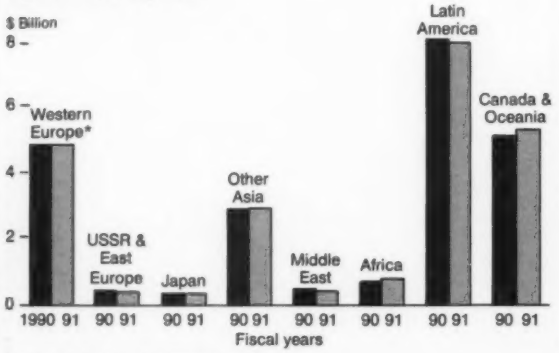
*1991 value includes the former East Germany.

Some Major U.S. Money Makers Will Earn Less This Year



*Mainly fruits, nuts, and vegetables.

U.S. Neighbors Continue To Supply Most of Our Agricultural Imports



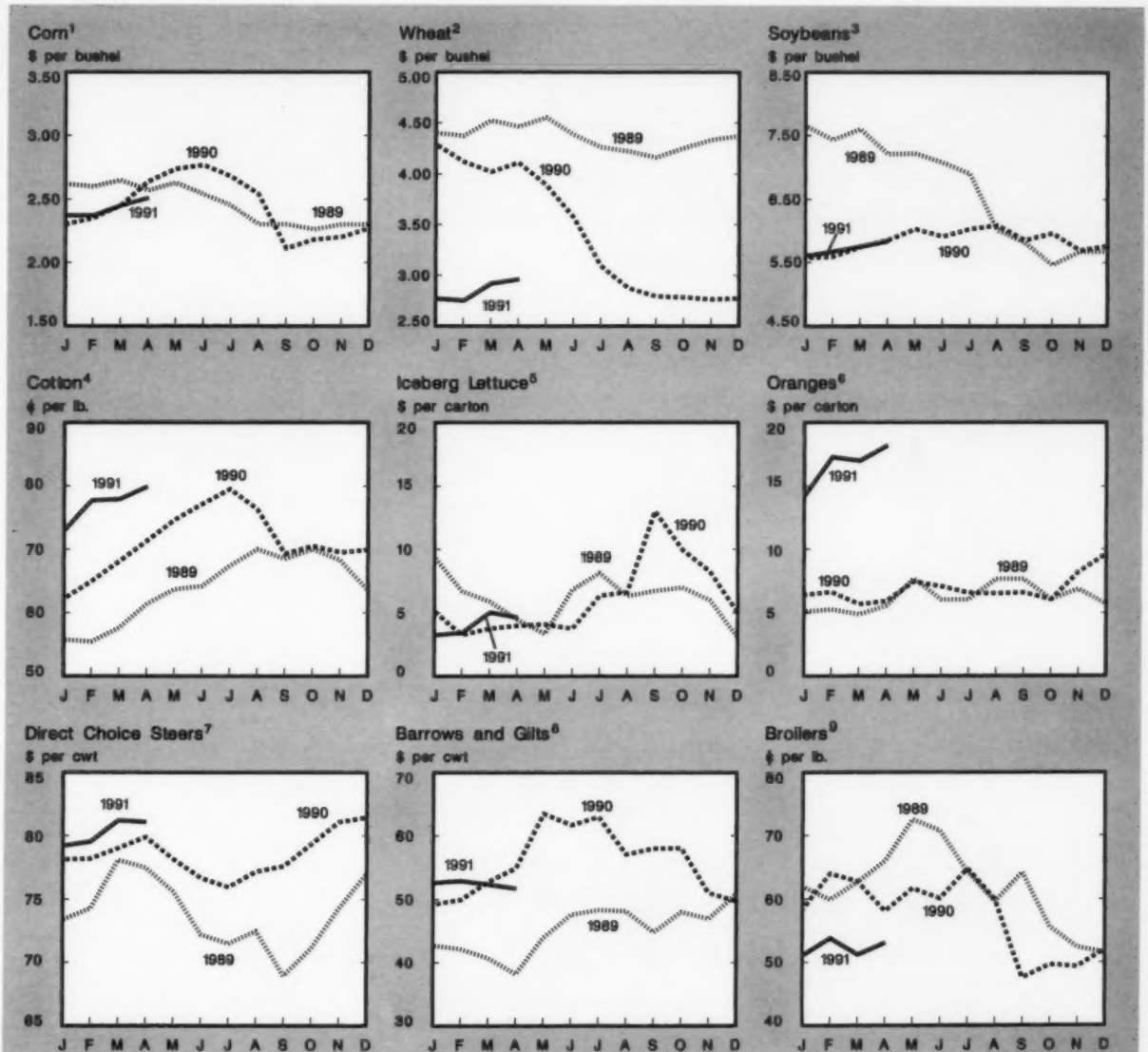
*1991 value includes the former East Germany.

1991 figures are based on USDA's February 1991 projections.
Data and analysis provided by Stephen MacDonald of the Commodity Economics Division, Economic Research Service.

FARMLINE TRENDS

Monthly Price Monitor

USDA's April 1991 inflation-adjusted index of farm prices was unchanged from March and was 1.3% below its year-earlier level. Corn reached $2.51 per bushel, the highest since August 1990, while soybeans, at $5.85, were the highest since October 1990. Wheat inched up to $2.96 per bushel, the most since July 1990. Cotton rose to 79.9¢ per pound, only its third time in the 79¢ range since 1984. Iceberg lettuce decreased by 40¢ to $4.65 per carton. California oranges continued to climb upward to $18.27 per carton. In the meat animals area, direct choice steers were $81.06 per cwt. Barrows and gilts fell 62¢ per cwt to $51.75. Broilers went up to 53.2¢ per pound.



[1]No. 2 yellow, Central Illinois. [2]No. 1 HRW, Kansas City. [3]No. 1 yellow, Central Illinois. [4]SLM 1-1/16", spot market price. [5]Standard carton 24's, California-Arizona. [6]Central California, Standard carton. [7]Nebraska. [8]Omaha. [9]Wholesale, New York. All prices shown are monthly averages.

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